

DURAND AREA SCHOOLS

DURAND, MICHIGAN

AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 10, 2004

INDEPENDENT AUDITOR'S REPORT

To the Board of Education of
Durand Area Schools

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2004, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Durand Area Schools' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools as of June 30, 2004, and the respective changes in financial position, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report under separate cover dated August 10, 2004 on our consideration of the School District's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages II - VIII and 19 are not required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Durand Area Schools' basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lewis & Knopf P.C.
LEWIS & KNOPF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

Durand Area Schools, a K-12 school District located in Shiawassee County, Michigan, is in its second year of implementation of the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34) with the enclosed financial statements. The Administration's Discussion and Analysis, a requirement of GASB 34, is intended to be the Durand Area Schools' Administration's discussion and analysis of the financial results for the fiscal year ended June 30, 2004.

Generally accepted accounting principles (GAAP) according to GASB 34 requires the reporting of two types of financial statements: District Wide Financial Statements and Fund Financial Statements.

Fund Financial Statements:

The School District's fund financial statements provide detailed information about the most significant funds – not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Governmental funds – All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year end are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

In the fund financial statements, purchased capital assets are reported as expenditures in the year of acquisition. No asset is reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long term obligations are recorded as expenditures. Future year's debt obligations are not recorded.

District Wide Financial Statements:

The District wide financial statements are full accrual basis statements. They report all of the District's assets and liabilities, both short and long term, regardless if they are "currently available" or not. For example, assets that are restricted for use in the Debt Funds solely for the payment of long term principal or interest are grouped with unrestricted assets of the General Fund. Capital assets and obligations of the District are reported in the Statement of Net Assets of the District wide financial statements.

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

District Wide Financial Statements: (Continued)

These two statements report the Durand Area Schools net assets – the difference between assets and liabilities, as reported in the statement of net assets – as one way to measure the School District’s financial health or financial position. Over time, increases or decreases in the School District’s net assets – as reported in the statement of activities – are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District’s operating results. However, the School District’s goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other nonfinancial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompasses all of the School District’s services, including instruction, support services, community services, athletics, and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

The School District as Trustee – Reporting the School District’s Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds and its private purpose trust funds. All of the School District’s fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District’s other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

SUMMARY OF NET ASSETS:

The following summarizes the net assets at the fiscal years ended June 30, 2004 and 2003:

NET ASSETS SUMMARY

	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
Current Assets	\$7,286,109	\$6,501,294
Non-Current Assets	<u>12,756,584</u>	<u>13,303,701</u>
<u>TOTAL ASSETS</u>	<u>\$20,042,693</u>	<u>\$19,804,995</u>
<u>LIABILITIES</u>		
Current Liabilities	\$6,873,345	\$6,023,691
Long-Term Liabilities	<u>12,559,394</u>	<u>13,050,310</u>
Total Liabilities	\$19,432,739	\$19,074,001
<u>NET ASSETS</u>		
Invested in Capital Assets - Net of Related Debt	251,638	208,977
Restricted - Debt Service	849,274	637,208
Restricted - Capital Projects	103,985	27,357
Unrestricted	<u>(594,943)</u>	<u>(142,548)</u>
Total Net Assets	<u>\$609,954</u>	<u>\$730,994</u>
<u>TOTAL LIABILITIES AND NET ASSETS</u>	<u>\$20,042,693</u>	<u>\$19,804,995</u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

RESULTS OF OPERATIONS:

For the fiscal years ended June 30, 2004 and 2003, the District wide results of operations were:

	<u>2004</u>	<u>2003</u>
<u>REVENUES</u>		
<u>General Revenues:</u>		
Property Taxes Levied for General Operations	\$877,878	\$852,188
Property Taxes Levied for Debt Service	1,234,386	1,161,424
Property Taxes Levied for Capital Projects	154,925	147,566
State of Michigan Unrestricted Foundation Aid	12,519,866	12,785,330
Other General Revenues	28,753	36,068
Total General Revenues	<u>\$14,815,808</u>	<u>\$14,982,576</u>
<u>Operating Grants:</u>		
Federal	815,709	835,506
State of Michigan	548,975	456,569
Other Operating Grants	327,433	306,919
Total Operating Grants	<u>\$1,692,117</u>	<u>\$1,598,994</u>
<u>Charges for Services:</u>		
Food Service	311,234	320,573
Athletics	68,247	90,739
Other Charges for Services	231,204	210,767
Total Charges for Services	<u>\$610,685</u>	<u>\$622,079</u>
Total Revenues	<u>\$17,118,610</u>	<u>\$17,203,649</u>
<u>EXPENSES</u>		
Instruction & Instructional Support	9,846,771	9,566,766
Support Services	5,045,827	4,418,247
Community Services	151,110	143,549
Food Service	616,730	602,965
Athletics	362,979	397,646
Interest on Long-Term Debt	681,065	825,951
Depreciation	535,168	535,168
Total Expenses	<u>\$17,239,650</u>	<u>\$16,490,292</u>
<u>INCREASE (DECREASE) IN NET ASSETS</u>	(\$121,040)	\$713,357
<u>BEGINNING NET ASSETS</u>	<u>730,994</u>	<u>17,637</u>
<u>ENDING NET ASSETS</u>	<u><u>\$609,954</u></u>	<u><u>\$730,994</u></u>

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GOVERNMENT- WIDE FINANCIAL ANALYSIS

Analysis of Financial Position:

During the year ended June 30, 2004, the District's Total Net Assets decreased by \$121,040 to a total of \$609,954. This represents a 17% decrease from the prior year. The largest portion of the net assets are the District's investment in capital assets. Net assets (invested in capital assets, net of related debt) increased by \$42,661 during the year due to purchases of new capital assets exceeding depreciation and principal payments on related debt. The districts Unrestricted Net Assets increased by \$452,395 during the year and the restricted portion of the net assets decreased by \$288,694. The restricted Net Assets consist of the Investment in Capital Assets-net of related Debt, the restricted debt retirement funds that may only be used to pay bonded debt and restricted capital projects funds that may only be used to fund capital projects. The unrestricted net assets may be used to fund the educational services provided to students.

Analysis of Results of Operations

The district's overall expenses exceeded its revenues for the year by \$121,040. The total revenues decreased by \$85,039 or ½% over last years amounts. The major change was a reduction in state aid. Expenditures increased by \$749,358 or 4 ½% over last year. Major changes were increases in wages and fringe benefits on collectively bargained contracts.

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS

Analysis of Financial Position

The focus of the District's governmental funds is to provide information on near term inflows, outflows , and balances of spendable resources. Such information is useful in assessing the district's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a governments net resources available for spending at the end of the fiscal year. An analysis of changes for the governmental funds is as follows:

General Fund

The district's general fund is the chief operating fund of the district. Unreserved fund balance for the general fund decreased by \$242,806 during the year with the decrease coming primarily from a reduction in cash. Revenues for the year decreased by \$142,503 primarily from a decrease in state aid. Expenditures and other financing uses increased by \$518,347, primarily was increases in salaries and fringe benefits. The major source of general fund revenues is state aid and taxes. An analysis of them is as follows:

1. State of Michigan Unrestricted Aid (Net State Foundation Grant)
The State of Michigan aid, unrestricted, is determined with the following variables:
 - a. State of Michigan State Aid Act per student foundation allowance
 - b. Student Enrollment - Blended at 80 percent of current year's fall count and 20 percent of prior year's winter count
 - c. The District's non-homestead tax levy
2. Per Student, Foundation Allowance:
Annually, the State of Michigan establishes the per student foundation allowance. The Durand Area Schools foundation allowance was \$6,700 per student for the 2003-2004 school year, the same as the prior year. The foundation allowance was decreased by \$74 per student from \$6,700 to \$6,626 as the result of an executive order by the governor.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

FINANCIAL ANALYSIS OF GOVERNMENT'S FUNDS – GOVERNMENTAL FUNDS (Continued)

Analysis of Financial Position (Continued)

General Fund (Continued)

3. Student Enrollment:

The District's student enrollment for the fall count of 2003-2004 was 2,028 students. A decrease of 26 students from the prior year.

4. Property Taxes Levied For General Operations (General Fund Non-Homestead Taxes)

The District levies 16.6199 mills of property taxes for operations (General Fund) on Non-Homestead Properties. Under Michigan law, the taxable levy is based on the taxable valuation of properties. Annually, the taxable valuation increase in property values is capped at the rate of the prior year's CPI increase or 5 percent, whichever is less. At the time of sale, a property's taxable valuation is readjusted to the State Equalized Value, which is, theoretically, 50 percent of the market value.

The District's non-homestead property tax revenue for the 2003-2004 fiscal year was \$873,085. An increase of \$20,897 from the prior year.

Capital Projects Fund

The districts Capital projects fund balance increased by \$27,357. Sinking fund taxes levied are the primary source of revenue in the fund and they increased by \$7,328 from the previous year. Expenditures which are restricted for construction projects decreased by \$78,457 from the prior year.

Debt Retirement Fund

The districts debt retirement fund balance increased by \$212,066. The fund balance is restricted to use for payments on bonded debt. The funds had expenditures of \$1,195,709 in paying the required interest and principal payments of the school's bonded debt. The majority of the fund's revenue is derived from tax collections. An analysis of them is as follows:

1. Debt Fund Property and Industrial Facility In Lieu of Taxes

The District's debt fund levy, which is used to pay the principal and interest on bond obligations, is based on the taxable valuation of all properties: homestead and non-homestead. In addition, the District collects IFT (Industrial Facilities Taxes) In Lieu of Taxes that are essentially taxed at 50 percent of the regular tax rate.

For 2003-2004, the District's debt millage levy was \$5.6 mills that generated revenue of \$1,233,034. An increase of \$71,295 from the prior year.

Special Revenue Funds

The districts special revenue funds provide food service and athletic opportunities to students. During the year the fund balances increased by \$7,158. Food service fund revenue increased by \$19,456, primarily from a \$21,505 increase in transfers from the general fund. Athletic fund revenue decreased by \$30,899, primarily from a reduction in transfers from the general fund.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

GENERAL FUND BUDGETARY HIGHLIGHTS:

GENERAL FUND BUDGET VS. ACTUAL

<u>Fiscal Year</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Actual & Original Budget %</u>	<u>Variance Actual & Final Budget %</u>
Revenue	\$14,873,036	\$15,080,743	\$15,081,355	1.40	0.00
Expenditures	14,872,673	15,399,066	15,324,161	(3.04)	0.49
<u>TOTAL</u>	<u>\$363</u>	<u>(\$318,323)</u>	<u>(\$242,806)</u>		

ANALYSIS OF BUDGETS:

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to July 1, the start of the fiscal year.

As a matter of practice, Durand Area Schools amends its budget quarterly during the school year. The June, 2004 budget amendment was the final budget for the fiscal year. There were no significant variations between the original and final budget.

CAPITAL ASSET AND DEBT ADMINISTRATION

A. Debt, Principal Payments

The District made principal payments on bonded, long term debt obligations that reduced the amount of the District's long term liabilities as follows:

	<u>Principal Balance 7-01-03</u>	<u>Increases 6-30-04</u>	<u>Principal Payments 6-30-04</u>	<u>Principal Balance 6-30-04</u>
Energy & Durant Bonds	\$627,639	\$0	\$145,000	\$482,639
Building & Site Bonds	12,295,000	0	365,000	11,930,000
Contracts Payable	172,086	0	79,779	92,307
Severance Payable	0	240,000	120,000	120,000
Sick & Vacation Pay Payable	545,364	101,391	0	646,755
<u>Total Long-Term Bond Obligations</u>	<u>\$13,640,089</u>	<u>\$341,391</u>	<u>\$709,779</u>	<u>\$13,271,701</u>

Significant transactions for the year besides the payment of required principal and interest payments was the approval of an early retirement severance package of \$240,000.

DURAND AREA SCHOOLS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CAPITAL ASSET AND DEBT ADMINISTRATION: (Continued)

B. Capital Assets

The district's net investment in capital assets decrease by \$547,117 during the fiscal year. This can be summarized as follows:

	BALANCE JULY 1, 2003	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30, 2004
Capital Assets	\$22,552,838	\$66,565	\$0	\$22,619,403
Less: Accumulated Depreciation	(9,249,137)	(613,682)	0	(9,862,819)
<u>Net Investment Capital Outlay</u>	<u>\$13,303,701</u>	<u>(\$547,117)</u>	<u>\$0</u>	<u>\$12,756,584</u>

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens and taxpayers with a general overview of the District's finances. If you have questions about this report or need additional information, contact the Business Office, Durand Area Schools.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
<u>ASSETS</u>		
<u>CURRENT ASSETS</u>		
Cash and Cash Equivalents	\$4,800,553	\$4,038,784
Accounts Receivable	31,269	20,285
Taxes Receivable	6,398	0
Due from Other Governmental Units	2,413,101	2,406,507
Inventory	34,788	35,718
Total Current Assets	<u>\$7,286,109</u>	<u>\$6,501,294</u>
<u>NON-CURRENT ASSETS</u>		
Capital Assets	22,619,403	22,552,838
Less: Accumulated Depreciation	<u>(9,862,819)</u>	<u>(9,249,137)</u>
Total Noncurrent Assets	<u>\$12,756,584</u>	<u>\$13,303,701</u>
<u>TOTAL ASSETS</u>	<u>\$20,042,693</u>	<u>\$19,804,995</u>
<u>LIABILITIES</u>		
<u>CURRENT LIABILITIES</u>		
Accounts Payable	536,815	257,663
State Aid Note Payable	4,500,000	4,000,000
Due to Other Governmental Units	0	4,556
Salaries Payable	1,006,797	1,040,847
Accrued Expenses	109,516	114,160
Deferred Revenue	7,910	16,687
Current Portion of Long-Term Obligations	<u>712,307</u>	<u>589,778</u>
Total Current Liabilities	<u>\$6,873,345</u>	<u>\$6,023,691</u>
<u>NON-CURRENT LIABILITIES</u>		
Noncurrent Portion of Long-Term Obligations	<u>12,559,394</u>	<u>13,050,310</u>
<u>TOTAL LIABILITIES</u>	<u>\$19,432,739</u>	<u>\$19,074,001</u>
<u>NET ASSETS</u>		
<u>NET ASSETS</u>		
Invested in Capital Assets, Net of Related Debt	251,638	208,977
Restricted for:		
Debt Service	849,274	637,208
Capital Projects	103,985	27,357
Unrestricted	<u>(594,943)</u>	<u>(142,548)</u>
<u>TOTAL NET ASSETS</u>	<u><u>\$609,954</u></u>	<u><u>\$730,994</u></u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENTS OF ACTIVITIES
JUNE 30, 2004 AND 2003

FUNCTIONS/PROGRAMS	2004			2003
	Expenses	Program Revenues		Net (Expense)
		Charges For	Operating	Revenue &
		Services	Grants and	Change in
			Contributions	Net Assets
Governmental Activities:				Net (Expense)
Instruction	\$9,846,771	\$0	\$1,302,748	Revenue &
Support Services	5,045,827	231,204	121,334	Change in
Community Services	151,110	0	0	Net Assets
Food Service	616,730	311,234	268,035	
Athletics	362,979	68,247	0	
Interest on Long-Term Obligations	681,065	0	0	
Depreciation - Unallocated	535,168	0	0	
<u>TOTALS</u>	<u>\$17,239,650</u>	<u>\$610,685</u>	<u>\$1,692,117</u>	<u>(\$14,936,848)</u>
General Revenues:				
Taxes:				
Property Taxes, Levied for General Purposes				2,267,189
State Aid				2,161,178
Investment Earnings				12,519,866
Miscellaneous				26,831
Total General Revenues and Transfers				11,958
Change in Net Assets				1,922
				<u>\$14,815,808</u>
				<u>\$14,982,576</u>
				<u>(\$121,040)</u>
				<u>\$713,357</u>
Net Assets - Beginning - As Restated				730,994
<u>Net Assets - Ending</u>				<u>17,637</u>
				<u>\$609,954</u>
				<u>\$730,994</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	General Fund	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>			
Cash and Cash Equivalents	\$3,853,960	\$946,593	\$4,800,553
Accounts Receivable	31,269	0	31,269
Taxes Receivable	0	6,398	6,398
Due from Other Governmental Units	2,408,515	4,586	2,413,101
Due from Other Funds	0	7,000	7,000
Inventory	24,357	10,431	34,788
<u>TOTAL ASSETS</u>	<u>\$6,318,101</u>	<u>\$975,008</u>	<u>\$7,293,109</u>
<u>LIABILITIES</u>			
Accounts Payable	\$536,815	\$0	\$536,815
State Aid Anticipation Note Payable	4,500,000	0	4,500,000
Due to Other Funds	7,000	0	7,000
Salaries Payable	1,006,797	0	1,006,797
Deferred Revenue	7,910	0	7,910
Total Liabilities	\$6,058,522	\$0	\$6,058,522
<u>FUND BALANCES</u>			
Reserved For:			
Inventory	24,357	10,431	34,788
Debt Retirement	0	849,274	849,274
Capital Projects	0	103,985	103,985
Unreserved:			
Undesignated, Reported In:			
General Fund	235,222	0	235,222
School Service Funds	0	11,318	11,318
Total Fund Balances	\$259,579	\$975,008	\$1,234,587
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$6,318,101</u>	<u>\$975,008</u>	<u>\$7,293,109</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES TO
NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2004

Total Governmental Fund Balances:		\$1,234,587
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$22,552,838 and the accumulated depreciation is \$9,862,819		12,756,584
Accrued Interest on Long-Term Debt		(109,516)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
Bonds Payable	\$12,412,639	
Contracts Payable	92,307	
Severance Payable	120,000	
Sick Pay Payable	646,755	
Total Long-Term Liabilities		<u>(13,271,701)</u>
<u>TOTAL NET ASSETS -</u> <u>GOVERNMENTAL ACTIVITIES</u>		<u>\$609,954</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	General	Other	Total
	Fund	Governmental	Governmental
		Funds	Funds
<u>REVENUES</u>			
Local Sources	\$1,172,316	\$1,769,220	\$2,941,536
State Sources	13,045,971	22,870	13,068,841
Federal Sources	570,544	245,165	815,709
Total Revenues	\$14,788,831	\$2,037,255	\$16,826,086
<u>EXPENDITURES</u>			
Current:			
Instruction	9,846,771	0	9,846,771
Student Services	340,023	0	340,023
Instructional Support	150,183	0	150,183
General Administration	423,336	0	423,336
School Administration	1,184,601	0	1,184,601
Business Administration	428,618	0	428,618
Operation & Maintenance of Plant	1,216,627	0	1,216,627
Transportation	770,708	0	770,708
Community Services	151,110	0	151,110
Food Service	0	974,278	974,278
Debt Service	0	1,195,709	1,195,709
Capital Outlay	0	78,343	78,343
Total Expenditures	\$14,511,977	\$2,248,330	\$16,760,307
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	\$276,854	(\$211,075)	\$65,779
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers to Other Funds	(506,927)	506,927	0
Other Transfers	(12,733)	0	(12,733)
Total Other Financing Sources (Uses)	(\$519,660)	\$506,927	(\$12,733)
Net Change in Fund Balance	(\$242,806)	\$295,852	\$53,046
<u>FUND BALANCE - BEGINNING</u>	502,385	679,156	1,181,541
<u>FUND BALANCE - ENDING</u>	\$259,579	\$975,008	\$1,234,587

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2004

Total net change in fund balances - governmental funds	\$53,046
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	(547,117)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount of repayments reported as expenditures in the governmental funds.	709,778
Change in accrued interest on long-term liabilities	4,644
Severance Package - Loan Proceeds	(240,000)
(Increase) in accrued compensated absences	<u>(101,391)</u>
<u>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</u>	<u><u>(\$121,040)</u></u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
JUNE 30, 2004

	<u>Trust & Agency</u>	<u>Private Purpose Trusts</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$49,558	\$154,696	\$204,254
<u>LIABILITIES</u>			
Due to Student Groups	<u>49,558</u>	<u>0</u>	<u>49,558</u>
<u>NET ASSETS - HELD IN TRUST FOR OTHERS</u>	<u>\$0</u>	<u>\$154,696</u>	<u>\$154,696</u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Private Purpose Trusts</u>
<u>REVENUE</u>	
Interest	\$2,160
Donations	16,641
Fund Transfers	<u>1,457</u>
Total Revenue	\$20,258
<u>EXPENDITURES</u>	
Scholarships	4,506
Service Fees	<u>1,038</u>
Total Expenditures	<u>\$5,544</u>
<u>CHANGE IN NET ASSETS</u>	\$14,714
<u>NET ASSETS - BEGINNING OF YEAR</u>	<u>139,982</u>
<u>NET ASSETS - END OF YEAR</u>	<u><u>\$154,696</u></u>

See accompanying notes to the basic financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

1) REPORTING ENTITY

The accompanying basic financial statements have been prepared in accordance with criteria established by the GASB for determining the various governmental organizations to be included in the reporting entity. These criteria include oversight responsibility, scope of public service, and special financing arrangements. Based on application of the criteria, the entity does not contain component units.

The District receives funding from local, state, federal and interdistrict government sources and must comply with the accompanying requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" body that has separate legal standing and is fiscally independent of the governmental entities. As such, the Board of Education has decision-making authority, the authority to levy taxes, and determine its budget, the power to designate management, the ability to significantly influence operations and primary accountability for fiscal matters.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Durand Area Schools conform to generally accepted accounting principles as applicable to school districts. The following is a summary of the significant accounting policies:

In June 1999 the Governmental Accounting Standards Board (GASB) issued Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Certain of the significant changes in the Statement include the following:

A Management Discussion and Analysis (MD&A) section to provide an analysis of the District’s overall financial position and results of operations.

Financial statements prepared with full accrual accounting for all of the District’s activities.

- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements and notes to the financial statements.

A) BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS

The District’s basic financial statements include both government-wide (reporting the District as a whole) and fund financial statements (reporting the District’s major funds). The government-wide financial statements categorize primary activities as either governmental or business type. All of the District’s activities are classified as governmental activities. Fiduciary funds are not included in the government-wide financial statements.

In the government-wide Statement of Net Assets, the governmental activities column is presented on a consolidated basis and is reported on a full-accrual economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District’s net assets are reported in three parts: invested in capital assets net of related debt; restricted net assets; and unrestricted net assets. The District first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the District’s functions. General government revenues also support the functions. The Statement of Activities reduces gross expenses by related program revenues, operating and capital grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary grants. The net costs by function are normally covered by general revenue (property taxes, state and federal sources, interest income, etc.).

The District does not allocate indirect costs. Inter-fund transactions have been eliminated in the government-wide financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B) BASIC FINANCIAL STATEMENTS - FUND FINANCIAL STATEMENTS

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the general-purpose financial statements in this report, into five generic fund types in two broad fund categories as follows:

Governmental Funds

Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use, and balances of the District's expendable financial resources and the related current liabilities are accounted for through governmental funds.

General Fund

The General Fund is used to record the general operations of the District pertaining to education and those operations not provided for in other funds. Included are all transactions related to the approved current operating budget.

Special Revenue Funds

Special Revenue Funds are used to segregate the transactions of particular activities from regular revenue and expenditure accounts. The District maintains full control of these funds. The District maintains two school service funds: Food Service and Athletic Funds.

Debt Retirement Fund

The Debt Retirement Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Fund - The Capital Projects Sinking Fund records capital project activities funded with Sinking Fund millage. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan. Voters in the School District authorized $\frac{3}{4}$ mill on March 11, 1997 for ten years to be used for school facility improvement.

Fiduciary Funds

Fiduciary fund reporting focuses on net assets and changes in net assets. The District's fiduciary funds consist of agency funds which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are used to account for amount held for student and employee groups.

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Accrual

Governmental activity in the government-wide financial statements is presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C) BASIS OF ACCOUNTING/MEASUREMENT FOCUS (Continued)

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within 60 days of year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term debt is recognized when due.

Those revenues susceptible to accrual are property taxes, state aid, interest revenue, grants and charges for services. Other revenue is recorded when received.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

D) CASH AND CASH EQUIVALENTS

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price and investments that do not have an established market are reported at estimated fair value. Cash deposits are reported at carrying amount which reasonably estimates fair value.

E) PREPAID ASSETS

Payments made to vendors for services that will benefit periods beyond June 30, 2004, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed.

F) INVENTORY

On government-wide financial statements are stated at cost and are expensed when used.

On fund financial statements inventories are stated at cost. Inventory in governmental funds consists of expendable supplies held for consumption.

G) CAPITAL ASSETS

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G) CAPITAL ASSETS (Continued)

All capital assets are capitalized at cost (or estimated historical cost) using a \$5,000 capitalization threshold and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The School District maintains a capitalization threshold of one hundred dollars. The School District does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not. Interest incurred during the construction of capital assets is also capitalized.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Governmental Activities</u> <u>Estimated Lives</u>
Buildings and Improvements	20 – 50 years
Furniture and Equipment	5 – 10 years
Vehicles and Buses	5 years

H) INTERFUND BALANCES

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as “interfund receivables/payables.” These amounts are eliminated in the governmental activities columns of the statement of net assets.

I) COMPENSATED ABSENCES

The School District reports compensated absences in accordance with the provisions of GASB Statement No. 16, “Accounting for Compensated Absences.” Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the School District’s past experience of making termination payments.

The entire compensated absence liability is reported on the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid compensated absences is the amount expected to be paid using expendable available resources. These amounts, if any, are recorded in the account “compensated absences payable” in the fund from which the employees who have accumulated unpaid leave are paid. The noncurrent portion of the liability is not reported. In proprietary funds, the entire amount of compensated absences is reported as a fund liability.

J) ACCRUED LIABILITIES AND LONG-TERM OBLIGATIONS

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, compensated absences, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K) FUND BALANCE RESERVES

The School District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for inventories.

L) NET ASSETS

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

M) ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

N) BUDGETARY DATA

The budgetary process is prescribed by provisions of the State of Michigan Budget Act and entails the preparation of budgetary documents within an established timetable. All funds, other than agency funds, are legally required to be budgeted and appropriated. The legal level of budgetary control has been established by the Board of Education at the function level. Any budgetary modifications may only be made by resolution of the Board of Education.

The School District follows these procedures in establishing the budgets for the individual funds as reflected in the financial statements.

- 1) Prior to June 30, the Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1.
- 2) A public hearing is conducted during June to obtain taxpayer comments.
- 3) Prior to June 30, the budget is legally enacted through passage of a resolution.
- 4) For purposes of meeting emergency needs of the School District, transfer of appropriations may be made by the authorization of the Superintendent. Such transfers of appropriations must be approved by the Board of Education at its next regularly scheduled meeting.
- 5) The School Superintendent is charged with general supervision of the budget and shall hold the department heads responsible for performance of their responsibilities.
- 6) During the year the budget is monitored, and amendments to the budget resolution are made when deemed necessary.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

3) STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY – BUDGET VIOLATIONS

P.A. 621 of 1978, Section 18 (1), as amended provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School District's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School District for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2004, the School incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

4) DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the District to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

Protection of the School District's deposits is provided by the Federal Deposit Insurance Corporation (FDIC).

The following information classifies deposits and investments by categories of risk as defined by GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements."

Deposits - The Board of Education authorized the following financial institutions for the deposit of the District's funds for the year ended June 30, 2004: Citizens Bank, Bank One and Fifth Third Bank. The Board also authorized the business office to invest funds with financial institutions that gave the maximum interest rate of return upon receipt of quotes.

The District's deposits are in accordance with statutory authority.

At June 30, 2004, the carrying amount of the School District's deposits was \$5,004,806 and the bank balance was \$5,187,414. \$1,143,771 of the bank balance was covered by federal depository insurance and \$4,043,643 was uninsured and uncollateralized.

Investments - The School District's investments are required to be categorized to give an indication of the level of risk assumed by the District at June 30, 2004. Category 1 includes investments that are insured or registered or for which the securities are held by the School District or its agent in the School District's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the School District's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or its trust department or agent but not in the School District's name.

The District had no investments at June 30, 2004.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

5) PROPERTY TAXES

The School District levies its property taxes on December 1 and various municipalities collect its property taxes and remit them to the District through February. The delinquent real property taxes of the District are purchased by the County, and delinquent personal property taxes continue to be collected by the municipalities and recorded as revenue as they are collected. The county sells tax notes, the proceeds of which have been used to pay the District for these delinquent real property taxes. These delinquent real property taxes have been recorded as revenue in the current year.

6) RECEIVABLES

Receivables at June 30, 2004, consist of taxes, accounts (fees), intergovernmental grants and interest. All receivables are considered collectible in full due to the ability to foreclose for the nonpayment of taxes, the stable condition of State programs, and the current year guarantee of federal funds.

A summary of the principal items of intergovernmental receivables (due from other governmental units) follows:

<u>GOVERNMENTAL ACTIVITIES</u>	<u>AMOUNT</u>
State Aid	\$ 2,407,255
Federal Grants	5,846
<u>TOTAL GOVERNMENTAL ACTIVITIES</u>	<u>\$ 2,413,101</u>

7) UNEMPLOYMENT COMPENSATION

The District is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the District must reimburse the employment commission for all benefits charged against the District for the year. For the year ended June 30, 2004, the District's unemployment costs were \$8,538.

8) SHORT-TERM DEBT

The District borrowed \$4,500,000 at 1.03% interest per annum on August 21, 2003, from Bank One on a State Aid Anticipation Note. The short-term note proceeds were used to meet cash flow needs. The balance as of June 30, 2004 was \$4,500,000. The note matures on August 20, 2004.

9) CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	<u>BALANCE</u> <u>JULY 1, 2003</u>	<u>ADDITIONS</u>	<u>DEDUCTIONS</u>	<u>BALANCE</u> <u>JUNE 30, 2004</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
Buildings and Improvements	\$19,732,421	\$0	\$0	\$19,732,421
Land Improvements	115,788	0	0	115,788
Equipment and Furniture	1,594,602	66,565	0	1,661,167
Vehicles	1,110,027	0	0	1,110,027
Totals at Historical Cost	\$22,552,838	\$66,565	\$0	\$22,619,403
Less: Accumulated Depreciation				
Buildings and Improvements	(7,471,534)	(402,791)	0	(7,874,325)
Land Improvements	0	0	0	0
Equipment and Furniture	(974,386)	(144,270)	0	(1,118,656)
Vehicles	(803,217)	(66,621)	0	(869,838)
Total Accumulated Depreciation	<u>(\$9,249,137)</u>	<u>(\$613,682)</u>	<u>\$0</u>	<u>(\$9,862,819)</u>
<u>GOVERNMENTAL ACTIVITIES</u>				
<u>CAPITAL ASSETS - NET</u>	<u>\$13,303,701</u>	<u>(\$547,117)</u>	<u>\$0</u>	<u>\$12,756,584</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

9) CAPITAL ASSETS (Continued)

Depreciation expense, when appropriate, was allocated to governmental functions. Depreciation expense that was not allocated appears on the statement of activities as "unallocated". Depreciation was recorded on the statement of activities as follows:

Support Services	\$ 73,083
Athletics	5,431
Unallocated	<u>535,168</u>
 <u>TOTAL DEPRECIATION EXPENSE</u>	 <u>\$ 613,682</u>

10) SELF INSURANCE POOL

The School District participates in a public entity risk pool (self-insurance pool) for its workers' compensation, and property and casualty insurance. The pool is through the MASB/SET/SEG and is administered by Corporate Services. The pool provides for reinsurance by various insurance companies at various levels, depending on the coverage. Should the pool experience significant losses in the aggregate, the School District may be required to pay additional monies to the pool. At present, the MASB/SET/SEG has not required additional funds, but rather has issued refunds based on experience gains over experience losses over the last few years. Premiums for the year ended June 30, 2004 were \$94,336 and the School District received a dividend refund of \$17,853.

11) LONG-TERM LIABILITIES

A) Energy Conservation Improvement Bonds

Durand Area Schools issued general obligation - limited tax bonds for the purpose of defraying the cost of energy conservation building improvements.

The bonds are dated April 1, 1996 in the aggregate amount of \$1,285,000 and require annual payments of principal and interest. The interest rates range from 4.40% to 6.20% per annum. The principal balance at June 30, 2004 was \$310,000.

B) Durant Resolution Package Bonds

Durand Area Schools issued Durant Resolution Bonds on November 24, 1998 in the amount of \$270,227 at the interest rate of 4.7613%. The bonds are a legal obligation of the school district but the annual State of Michigan appropriation is the only revenue source for making the annual debt service payments on the bonds. If the legislature fails to appropriate the bonds, the district is under no obligation for payment. The balance at June 30, 2004 was \$172,639. The legislature refinanced the repayment schedule during the year ended June 30, 2003.

C) Building and Site Bonds

Durand Area Schools issued general obligation - limited tax bonds for the purpose of defraying the cost of building a new middle school.

The bonds are dated August 1, 1997 in the aggregate amount of \$13,700,000 and require annual payments of principal and interest. The interest rates range from 5.250% to 5.375% per annum. The principal balance at June 30, 2004 was \$11,930,000.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

12) LONG-TERM LIABILITIES (Continued)

D) Contracts Payable

Durand Area Schools is indebted at June 30, 2004 on the following contracts for bus purchases:

<u>DESCRIPTION</u>	<u>INTEREST RATE</u>	<u>PRINCIPAL AMOUNT</u>
2000 International	5.235%	\$ 22,307
2003 International (2)	2.875%	70,000
 <u>TOTAL</u>		 <u>\$ 92,307</u>

E) Severance Package Payable

Durand Area Schools has approved one-time early severance packages with several full-time staff. These packages obligated the District to make annual installment payments to the Legend Group, due July, 2005.

	<u># of Years Remaining</u>	<u>Balance at June 30, 2004</u>
2003 Buyout	1	\$ 120,000

F) Annual Principal Requirements

The annual principal requirements for all debts outstanding as of June 30, 2004 are as follows:

	<u>Bonds Payable</u>	<u>Contracts Payable</u>	<u>Severance Payable</u>	<u>Interest</u>	<u>Total</u>
June 30, 2005	\$535,000	\$57,307	\$120,000	\$660,276	\$1,372,583
June 30, 2006	578,080	35,000	0	634,636	1,247,716
June 30, 2007	443,700	0	0	601,825	1,045,525
June 30, 2008	469,355	0	0	578,597	1,047,952
June 30, 2009	543,843	0	0	575,794	1,119,637
June 30, 2010-2014	2,917,661	0	0	2,344,369	5,262,030
June 30, 2015-2019	3,600,000	0	0	1,489,682	5,089,682
June 30, 2020-2023	3,325,000	0	0	451,500	3,776,500
 <u>TOTAL</u>	 <u>\$12,412,639</u>	 <u>\$92,307</u>	 <u>\$120,000</u>	 <u>\$7,336,679</u>	 <u>\$19,961,625</u>

The payment dates of sick and vacation pay payable is undeterminable. The interest expenditures on long-term obligations for the year were \$689,605.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

11) LONG-TERM LIABILITIES (Continued)

G) Changes in Long-Term Debt

The following is a summary of long-term debt transactions of the School District for the year ended June 30, 2004.

	BALANCE			BALANCE	AMOUNT DUE
Governmental Activities:	JULY 1, 2003	ADDITIONS	DEDUCTIONS	JUNE 30, 2004	IN ONE YEAR
Energy & Durant Bonds	\$627,639	\$0	\$145,000	\$482,639	\$150,000
Building & Site Bonds	12,295,000	0	365,000	11,930,000	385,000
Contracts Payable	172,086	0	79,779	92,307	57,307
Severance Payable	0	240,000	120,000	120,000	120,000
Sick & Vacation Pay Payable	545,364	101,391	0	646,755	0
<u>TOTAL</u>	<u>\$13,640,089</u>	<u>\$341,391</u>	<u>\$709,779</u>	<u>\$13,271,701</u>	<u>\$712,307</u>

12) INTERFUND ACTIVITY

Interfund activity at June 30, 2004 consisted of the following:

DUE TO	DUE FROM	
	SPECIAL REVENUE	
General Fund	<u>\$7,000</u>	

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting systems, and (3) payments between funds are made.

13) INTERFUND TRANSFERS

Interfund transfers for the year ended June 30, 2004, consisted of the following:

TRANSFERS TO	TRANSFERS FROM	
	GENERAL FUND	
Food Services Fund	\$41,505	
Athletics Fund	292,202	
Debt Retirement Fund	<u>173,220</u>	
<u>TOTAL</u>	<u>\$506,927</u>	

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them (2) move receipts restricted to debt service from the funds collecting the receipts to the fund servicing the debt as debt payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

14) DEFINED BENEFIT PENSION PLAN

Plan Description

The School District participates in the Michigan Public School Employees' Retirement System (MPERS), a statewide, cost-sharing, multiple-employer defined benefit public employee retirement system governed by the State of Michigan that covers substantially all employees of the School District. The MPERS provides retirement, survivor and disability benefits to plan members and their beneficiaries. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the MPERS. That report may be obtained by writing to the MPERS at 7150 Harris Drive, PO Box 30673, Lansing, MI 48909-8103.

Funding Policy

Employer contributions to the MPERS result from the implementing effects of the School Finance Reform Act. Under these procedures, each school district is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The pension benefit rate totals 12.99 percent for the period July 1, 2003 through September 30, 2003 and 12.99 percent for the period October 1, 2003 through June 30, 2004 of the covered payroll to the plan. Basic plan members make no contributions, but contribute to a member investment plan (MIP) at rates ranging from 3 percent to 4.3 percent of gross wages. The School District's contributions to the MPERS pension plan for the years ended June 30, 2004, 2003 and 2002 were \$1,203,916, \$1,171,760 and \$1,138,830, respectively.

Postemployment Benefits

Under the MPERS Act, all retirees participating in the MPERS pension plan have the option of continuing health, dental and vision coverage. Retirees having these coverages contribute an amount equivalent to the monthly cost for Part B Medicare and 10 percent of the monthly premium amount for the health, dental and vision coverages. Required contributions for postemployment health care benefits are included as part of the School District's total contribution to the MPERS pension plan discussed above.

15) RISK MANAGEMENT

The District is exposed to various risks of loss in conducting its operations, from property and casualty theft, damage to various tort and liability claims and workman's compensation claims. The District limits its exposure to such claims through its participation in and payments of premiums to SET-SEG, Inc. Insurance Trust. This pool maintains a loss fund and is also required by the terms of the participation agreement to obtain insurance and reinsurance as necessary.

The terms of the participation agreement with the pool indicate that, should losses of the pool incurred in a given coverage period exceed the loss fund and the aggregate excess reinsurance, the fund may access its member districts on a pro-rata basis to cover excess losses. In past years the loss fund has exceeded the amount necessary to maintain prudent loss reserves, resulting in annual premium refunds to member districts. The District's management believes that participation in this pool provides sufficient coverage to protect the District from any significant adverse financial impact.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2004

16) CONTINGENCIES AND COMMITMENTS

The District participates in a number of federally assisted grant programs, principally of which is the Title I grant. This programs are subject to program compliance audits. The audit of this program for and including the year ended June 30, 2004, has been conducted and has been reported in this audit report. However, the compliance audit reports have not yet been accepted by the grantors. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time; although the District expects such amounts, if any, to be immaterial.

17) SUBSEQUENT EVENT

The District borrowed \$4,500,000.00 at 1.57% interest per annum on August 20, 2004, from the Bank One on a State Aid Anticipation Note.

REQUIRED
SUPPLEMENTARY
INFORMATION

DURAND AREA SCHOOLS - DURAND, MICHIGAN
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2004

	<u>Budgeted Amounts</u>			<u>Variance With</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
<u>REVENUES</u>				
Local Sources	\$1,195,845	\$1,209,445	\$1,172,316	(\$37,129)
State Sources	13,377,191	13,306,500	13,045,971	(260,529)
Federal Sources	300,000	564,798	570,544	5,746
Total Revenues	\$14,873,036	\$15,080,743	\$14,788,831	(\$291,912)
<u>EXPENDITURES</u>				
Current:				
Instruction	9,907,319	9,995,349	9,846,771	148,578
Student Services	286,246	341,054	340,023	1,031
Instructional Support	216,734	154,574	150,183	4,391
General Administration	377,597	426,352	423,336	3,016
School Administration	1,066,655	1,149,642	1,184,601	(34,959)
Business Administration	442,725	445,739	428,618	17,121
Operation & Maintenance of Plant	945,082	1,236,798	1,216,627	20,171
Transportation	807,638	764,300	770,708	(6,408)
Community Services	191,677	204,258	151,110	53,148
Total Expenditures	\$14,241,673	\$14,718,066	\$14,511,977	\$206,089
Excess of Revenues Over Expenditures	\$631,363	\$362,677	\$276,854	(\$85,823)
<u>OTHER FINANCING SOURCES (USES)</u>	<u>(631,000)</u>	<u>(681,000)</u>	<u>(519,660)</u>	<u>161,340</u>
Net Change in Fund Balance	\$363	(\$318,323)	(\$242,806)	\$75,517
<u>FUND BALANCE - BEGINNING</u>			<u>502,385</u>	
<u>FUND BALANCE - ENDING</u>			<u>\$259,579</u>	

OTHER SUPPLEMENTAL
INFORMATION

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING BALANCE SHEET
OTHER GOVERNMENTAL FUNDS
AS OF JUNE 30, 2004

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Other Governmental Funds
<u>ASSETS</u>				
Cash and Cash Equivalents	\$6,732	\$843,590	\$96,271	\$946,593
Taxes Receivable	0	5,684	714	6,398
Due From Other Governmental Units	4,586	0	0	4,586
Due From Other Funds	0	0	7,000	7,000
Inventory	10,431	0	0	10,431
<u>TOTAL ASSETS</u>	<u>\$21,749</u>	<u>\$849,274</u>	<u>\$103,985</u>	<u>\$975,008</u>
<u>FUND BALANCES</u>				
Reserved For:				
Inventory	\$10,431	\$0	\$0	\$10,431
Debt Retirement	0	849,274	0	849,274
Capital Projects	0	0	103,985	103,985
Unreserved:				
Undesignated, Reported In:				
School Service Fund	11,318	0	0	11,318
<u>TOTAL FUND BALANCES</u>	<u>\$21,749</u>	<u>\$849,274</u>	<u>\$103,985</u>	<u>\$975,008</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
OTHER GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2004

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Other Governmental Funds
<u>REVENUES</u>				
Local Sources	\$379,694	\$1,234,555	\$154,971	\$1,769,220
State Sources	22,870	0	0	22,870
Federal Sources	245,165	0	0	245,165
Total Revenues	<u>\$647,729</u>	<u>\$1,234,555</u>	<u>\$154,971</u>	<u>\$2,037,255</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from Other Funds	333,707	173,220	0	506,927
Total Revenues & Other Financing Sources	<u>\$981,436</u>	<u>\$1,407,775</u>	<u>\$154,971</u>	<u>\$2,544,182</u>
<u>EXPENDITURES</u>				
Food Service	974,278	0	0	974,278
Debt Service				
Principal	0	510,000	0	510,000
Interest	0	684,959	0	684,959
Other	0	750	0	750
Capital Projects	0	0	78,343	78,343
Total Expenditures	<u>\$974,278</u>	<u>\$1,195,709</u>	<u>\$78,343</u>	<u>\$2,248,330</u>
Net Change in Fund Balance	<u>\$7,158</u>	<u>\$212,066</u>	<u>\$76,628</u>	<u>\$295,852</u>
<u>NET ASSETS - BEGINNING</u>	<u>14,591</u>	<u>637,208</u>	<u>27,357</u>	<u>679,156</u>
<u>NET ASSETS - ENDING</u>	<u>\$21,749</u>	<u>\$849,274</u>	<u>\$103,985</u>	<u>\$975,008</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$3,721	\$3,011	\$6,732
Due From Other Governmental Units	4,586	0	4,586
Inventory	<u>10,431</u>	<u>0</u>	<u>10,431</u>
<u>TOTAL ASSETS</u>	<u>\$18,738</u>	<u>\$3,011</u>	<u>\$21,749</u>
<u>FUND EQUITY</u>			
Fund Balance - Reserved for Inventory	\$10,431	\$0	\$10,431
Fund Balance - Unreserved and Undesignated	<u>8,307</u>	<u>3,011</u>	<u>11,318</u>
<u>TOTAL FUND EQUITY</u>	<u>\$18,738</u>	<u>\$3,011</u>	<u>\$21,749</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SPECIAL REVENUE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2004

<u>REVENUES</u>	<u>FOOD SERVICES</u>	<u>ATHLETIC ACTIVITIES</u>	<u>TOTALS</u>
Local Sources			
Cafeteria Sales	\$311,234	\$0	\$311,234
Athletic Activities	0	68,247	68,247
Earning on Investments and Deposits	213	0	213
Total Local Sources	<u>\$311,447</u>	<u>\$68,247</u>	<u>\$379,694</u>
State Sources			
State Reimbursements	22,870	0	22,870
Federal Sources			
Federal Reimbursements	<u>245,165</u>	<u>0</u>	<u>245,165</u>
Total Revenues	<u>\$579,482</u>	<u>\$68,247</u>	<u>\$647,729</u>
<u>OTHER FINANCING SOURCES</u>			
Transfers from General Fund	<u>41,505</u>	<u>292,202</u>	<u>333,707</u>
Total Revenues and Other Financing Sources	<u>\$620,987</u>	<u>\$360,449</u>	<u>\$981,436</u>
<u>EXPENDITURES</u>			
Salaries - Professional	42,240	77,059	119,299
Salaries - Non-Professional	175,889	155,066	330,955
Insurances	41,505	14,669	56,174
Fica, Retirement, Etc.	44,976	47,230	92,206
Purchased Services	4,249	18,046	22,295
Supplies and Materials	306,429	44,708	351,137
Capital Outlay	1,059	0	1,059
Other	383	770	1,153
Total Expenditures	<u>\$616,730</u>	<u>\$357,548</u>	<u>\$974,278</u>
<u>EXCESS REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES</u>	<u>\$4,257</u>	<u>\$2,901</u>	<u>\$7,158</u>
<u>FUND BALANCE - BEGINNING OF YEAR</u>	<u>\$14,481</u>	<u>\$110</u>	<u>\$14,591</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$18,738</u>	<u>\$3,011</u>	<u>\$21,749</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
CAPITAL PROJECTS FUND
COMBINING BALANCE SHEET
AS OF JUNE 30, 2004

	<u>1996</u> <u>ENERGY</u>	<u>1997</u> <u>SINKING FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>			
Cash and Cash Equivalents	\$0	\$96,271	\$96,271
Taxes Receivable	0	714	714
Due from Other Funds	<u>0</u>	<u>7,000</u>	<u>7,000</u>
<u>TOTAL ASSETS</u>	<u>\$0</u>	<u>\$103,985</u>	<u>\$103,985</u>
<u>FUND EQUITY</u>			
Fund Balance - Designated for Capital Improvements	<u>\$0</u>	<u>\$103,985</u>	<u>\$103,985</u>
<u>TOTAL FUND EQUITY</u>	<u>\$0</u>	<u>\$103,985</u>	<u>\$103,985</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
CAPITAL PROJECTS FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2004

	<u>1996</u> <u>ENERGY</u>	<u>1997</u> <u>SINKING</u> <u>FUND</u>	<u>TOTAL</u>
<u>REVENUES</u>			
Local Sources			
Property Taxes	\$0	\$154,925	\$154,925
Earnings on Investment & Deposits	25	21	46
Total Local Sources	<u>\$25</u>	<u>\$154,946</u>	<u>\$154,971</u>
<u>EXPENDITURES</u>			
Capital Outlay	<u>5,404</u>	<u>72,939</u>	<u>78,343</u>
<u>EXCESS REVENUES OVER</u> <u>(UNDER) EXPENDITURES</u>	<u>(\$5,379)</u>	<u>\$82,007</u>	<u>\$76,628</u>
<u>FUND BALANCE -</u> <u>BEGINNING OF YEAR</u>	<u>\$5,379</u>	<u>\$21,978</u>	<u>\$27,357</u>
<u>FUND BALANCE - END OF YEAR</u>	<u>\$0</u>	<u>\$103,985</u>	<u>\$103,985</u>

INDIVIDUAL FUND SCHEDULES OF
REVENUES, EXPENDITURES AND
OTHER FINANCING USES

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
FOR THE YEAR ENDED JUNE 30, 2004

REVENUES FROMLocal Sources

Property Tax Levy	\$877,878
Earnings on Investments and Deposits	26,403
Preschool	146,827
Tuition - Summer School	905
Tuition	34,785
Transportation	4,910
Medicaid School Based Services	33,842
Other Local Revenues	46,766
Total Revenues from Local Sources	<u>\$1,172,316</u>

State Sources

State Aid	12,194,330
Special Ed Headlee	325,536
Michigan Readiness	118,800
At Risk	276,227
Vocational Education	28,617
Durant	27,023
Pal Grant	59,870
Driver Education	15,568
Total Revenues from State Sources	<u>\$13,045,971</u>

Federal Sources

Title I	421,235
Improving Teacher Quality	131,951
CM White Physical Fitness - Pep Grant	4,000
Technology Literacy	4,288
Title V	6,279
Drug Free Schools	2,791
Total Revenues from Federal Sources	<u>\$570,544</u>
Total Revenues	<u>\$14,788,831</u>

OTHER FINANCING SOURCES

Act 18 - County Special Education Tax	79,317
Transfers From Other Districts	213,207
Total Other Financing Sources	<u>\$292,524</u>

TOTAL REVENUES AND OTHER FINANCING SOURCES

\$15,081,355

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTIONBASIC PROGRAMSWilbur Bills - Elementary

Salaries - Professional	\$346,867
Salaries - Non-Professional	33,793
Insurances	89,029
Fica, Retirement, Etc.	77,879
Purchased Services	19,411
Supplies and Materials	11,935
Total Wilbur Bills - Elementary	<u>\$578,914</u>

Robert Kerr - Elementary

Salaries - Professional	633,519
Salaries - Non-Professional	48,829
Insurances	133,866
Fica, Retirement, Etc.	140,778
Purchased Services	13,710
Supplies and Materials	15,806
Total Robert Kerr - Elementary	<u>\$986,508</u>

Doyle Knight - Elementary

Salaries - Professional	656,510
Salaries - Non-Professional	37,760
Insurances	137,447
Fica, Retirement, Etc.	143,279
Purchased Services	11,929
Supplies and Materials	14,438
Total Doyle Knight- Elementary	<u>\$1,001,363</u>

Bertha Neal - Elementary

Salaries - Professional	662,527
Salaries - Non-Professional	51,527
Insurances	154,935
Fica, Retirement, Etc.	147,294
Purchased Services	11,893
Supplies and Materials	15,258
Total Bertha Neal - Elementary	<u>\$1,043,434</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)

BASIC PROGRAMS (Continued)

Junior High

Salaries - Professional	\$1,179,731
Salaries - Non-Professional	44,159
Insurances	258,862
Fica, Retirement, Etc.	252,092
Purchased Services	14,760
Supplies and Materials	38,341
Other	210
Total Junior High	<u>\$1,788,155</u>

High School

Salaries - Professional	1,288,342
Salaries - Non-Professional	93,742
Insurances	275,002
Fica, Retirement, Etc.	291,220
Purchased Services	41,565
Supplies and Materials	69,839
Other	900
Total High School	<u>\$2,060,610</u>

Preschool - Robert Kerr

Salaries - Professional	70,788
Salaries - Non-Professional	16,163
Insurances	22,521
Fica, Retirement, Etc.	17,947
Purchased Services	2,673
Supplies and Materials	6,527
Other	460
Total Preschool - Robert Kerr	<u>\$137,079</u>

Total Basic Programs

\$7,596,063

ADDED NEEDS

Special Education

Salaries - Professional	497,898
Salaries - Non-Professional	163,460
Insurances	227,820
Fica, Retirement, Etc.	136,489
Supplies and Materials	1,507
Total Special Education	<u>\$1,027,174</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

INSTRUCTION (Continued)

ADDED NEEDS (Continued)

Compensatory Education

Salaries - Professional	\$255,968
Salaries - Non-Professional	203,064
Insurances	120,258
Fica, Retirement, Etc.	94,554
Purchased Services	240,648
Supplies and Materials	24,114
Other	801
Total Compensatory Education	<u>\$939,407</u>

Vocational Education

Salaries - Professional	159,580
Insurances	43,967
Fica, Retirement, Etc.	32,937
Purchased Services	3,018
Supplies and Materials	12,647
Capital Outlay	12,367
Total Vocational Education	<u>\$264,516</u>

Total Added Needs	\$2,231,097
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Adult Education

Salaries - Professional	13,771
Insurances	868
Fica, Retirement, Etc.	2,104
Purchased Services	2,279
Supplies and Materials	589
Total Adult Education	<u>\$19,611</u>

<u>Total Instruction</u>	\$9,846,771
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SUPPORT SERVICES

STUDENT SERVICES

Salaries - Professional	236,742
Salaries - Non-Professional	32,308
Insurances	26,865
Fica, Retirement, Etc.	41,994
Purchased Services	238
Supplies and Materials	1,876
Total Student Services	<u>\$340,023</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)

INSTRUCTIONAL STAFF

Salaries - Professional	\$66,956
Salaries - Non-Professional	15,071
Insurances	25,981
Fica, Retirement, Etc.	16,930
Purchased Services	16,676
Supplies and Materials	8,569
Total Instructional Staff	<u>\$150,183</u>

GENERAL ADMINISTRATION

Board of Education

Salaries - Professional	3,994
Salaries - Non-Professional	626
Fica, Retirement, Etc.	129
Purchased Services	41,955
Total Board of Education	<u>\$46,704</u>

District Administration

Salaries - Professional	185,013
Salaries - Non-Professional	36,231
Insurances	50,629
Fica, Retirement, Etc.	43,875
Other Benefits	540
Purchased Services	14,029
Supplies and Materials	7,718
Capital Outlay	38,597
Total District Administration	<u>\$376,632</u>

Total General Administration	\$423,336
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SCHOOL ADMINISTRATION

Salaries - Professional	582,561
Salaries - Non-Professional	210,560
Insurances	217,899
Fica, Retirement, Etc.	161,237
Other Benefits	11,702
Purchased Services	642
Total School Administration	<u>\$1,184,601</u>

BUSINESS OFFICE

Salaries - Professional	76,788
Salaries - Non-Professional	49,828
Insurances	28,334
Fica, Retirement, Etc.	43,166
Purchased Services	92,357
Capital Outlay	80,145
Other	58,000
Total Business Office	<u>\$428,618</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
GENERAL FUND
SCHEDULE OF EXPENDITURES AND OTHER FINANCING USES
FOR THE YEAR ENDED JUNE 30, 2004

SUPPORT SERVICES (Continued)OPERATION AND MAINTENANCE OF PLANT

Salaries - Professional	\$14,279
Salaries - Non-Professional	484,483
Insurances	154,510
Fica, Retirement, Etc.	103,616
Purchased Services	110,407
Supplies and Materials	349,332
Total Operation and Maintenance of Plant	<u>\$1,216,627</u>

TRANSPORTATION

Salaries - Professional	47,944
Salaries - Non-Professional	296,519
Insurances	142,941
Fica, Retirement, Etc.	69,397
Purchased Services	56,631
Supplies and Materials	71,070
Other	86,206
Total Transportation	<u>\$770,708</u>

Total Support Services \$4,514,096

COMMUNITY SERVICES

Salaries - Professional	101,926
Salaries - Non-Professional	1,205
Insurances	11,339
Fica, Retirement, Etc.	20,445
Purchased Services	8,285
Supplies and Materials	7,910
Total Community Services	<u>\$151,110</u>

TOTAL EXPENDITURES \$14,511,977

OTHER FINANCING USES

Transfer to Other Funds	506,927
Transfers to Other Districts	118,192
Sick Day Payout	67,065
Teacher Buyouts	<u>120,000</u>

TOTAL OTHER FINANCING USES \$812,184

TOTAL EXPENDITURES AND OTHER
FINANCING USES

\$15,324,161

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS		DUE TO (FROM) STUDENT GROUPS	
	JULY 1, 2003	RECEIPTS	DISBURSEMENTS	JUNE 30, 2004
AD	\$696	\$6,901	\$4,867	\$2,730
Alternative Ed	5	0	0	5
Annual Account	532	21,813	20,250	2,095
Art Club	1,194	4,629	8,018	(2,195)
ATOD	11	0	0	11
Band	(708)	1,130	405	17
Baseball	377	3,731	3,115	993
Basketball - Jr. High	(295)	0	0	(295)
Basketball Club	2,179	14,207	11,615	4,771
Beautification - HS	259	0	110	149
Book Deposit Fees	5,499	1,525	4,440	2,584
Books Fees	1,884	3,607	0	5,491
Cheerleaders	(7,729)	14,130	6,930	(529)
Class of 2000	838	0	0	838
Class of 2002	1,398	0	0	1,398
Class of 2003	1,947	0	0	1,947
Class of 2004	4,311	3,160	6,077	1,394
Class of 2005	1,615	31,645	30,473	2,787
Class of 2006	902	4,625	4,147	1,380
Class of 2007	0	375	150	225
Counseling	81	1,225	11	1,295
Cross Country	298	0	308	(10)
Debarr Scholarship	85	0	0	85
Drafting	53	0	0	53
Drama Club	401	0	0	401
Education Program - A	6,158	18,519	10,455	14,222
Education Program - B	(2,279)	0	0	(2,279)
F.F.A.	4,288	5,577	9,300	565
FCCLA	784	394	572	606
Flower Fund - HS	123	570	676	17
Football Club	880	5,395	5,257	1,018
French Club	260	0	0	260
Girls Basketball - HS	727	1,431	1,922	236
Gym Locks	207	0	12	195
Handbook Fines	664	0	664	0
Industry	477	32	202	307
Junior Achievement	208	0	0	208
Landscape	52	0	0	52
Library Book Fines	332	43	724	(349)
Lions Scholarship	35	0	0	35
Math	63	0	0	63
Sub-Total	\$28,812	\$144,664	\$130,700	\$42,776

DURAND AREA SCHOOLS - DURAND, MICHIGAN
TRUST AND AGENCY FUND
SCHEDULE OF RECEIPTS AND DISBURSEMENTS - STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2004

STUDENT ACTIVITY	DUE TO (FROM) STUDENT GROUPS JULY 1, 2003	RECEIPTS	DISBURSEMENTS	DUE TO (FROM) STUDENT GROUPS JUNE 30, 2004
National Honor Society	\$766	\$508	\$955	\$319
Poms	498	955	1,099	354
Road Test	2,987	12,925	14,830	1,082
RTV	364	0	0	364
S.A.D.D.	536	0	0	536
S.P.E.D.	(323)	0	0	(323)
Science	25	0	0	25
Self Esteem Committee	461	0	0	461
Sign Committee	1,640	0	0	1,640
Ski Club	860	1,436	1,081	1,215
Soccer - Boys	5	2,021	2,052	(26)
Soccer - Girls	292	853	1,065	80
Social Studies	1,344	0	0	1,344
Softball Club	578	0	509	69
Spanish Club	345	0	0	345
Student Government	1,131	0	701	430
Summerhays Scholarship	393	0	0	393
Technology	15	0	0	15
Tennis	192	1,007	1,007	192
Tirtha Scholarship	0	0	500	(500)
Track - Boys	0	130	21	109
Track - Girls	(182)	0	0	(182)
Volleyball	(257)	8,047	8,950	(1,160)
<u>TOTALS</u>	<u>\$40,482</u>	<u>\$172,546</u>	<u>\$163,470</u>	<u>\$49,558</u>

DURAND AREA SCHOOL - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

<u>HARVEY FOX SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$22,169
<u>REVENUE</u>	
Interest	1,064
Donations	860
Total Revenue	<u>\$1,924</u>
<u>EXPENDITURES</u>	
Service Fees	<u>84</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$24,009</u>
<u>ROBERT McALPINE SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$11,296
<u>REVENUE</u>	
Interest	104
Donations	908
Total Revenue	<u>\$1,012</u>
<u>EXPENDITURES</u>	
Scholarship Awards	660
Service Fees	84
Total Expenditures	<u>\$744</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$11,564</u>
<u>MR. AND MRS. SUMMERHAYS SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$1,983
<u>REVENUE</u>	
Interest	14
Donations	595
Total Revenue	<u>\$609</u>
<u>EXPENDITURES</u>	
Service Fees	<u>12</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$2,580</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

<u>RAYMOND McLAUGHLIN MEMORIAL SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$53,505
<u>REVENUE</u>	
Interest	470
Deposit - Boosters	857
Total Revenue	<u>\$1,327</u>
<u>EXPENDITURES</u>	
Service Fees	<u>87</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$54,745</u>
<u>KENNETH LEE ACKERMAN SCHOLARSHIP FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$1,908
<u>REVENUE</u>	
Interest	18
Donation	600
Total Revenue	<u>\$618</u>
<u>EXPENDITURES</u>	
Scholarship Awards	85
Service Fees	345
Total Expenditures	<u>\$430</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$2,096</u>
<u>COURTNEY DEISLER FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$6,901
<u>REVENUE</u>	
Fund Transfer	495
<u>EXPENDITURES</u>	
Service Fees	<u>85</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$7,311</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

<u>OPTIMIST SCHOLARSHIP</u>	
<u>BALANCE - JULY 1, 2003</u>	\$10,822
<u>REVENUE</u>	
Interest	100
Donations	1,093
Total Revenue	<u>\$1,193</u>
<u>EXPENDITURES</u>	
Scholarship Awards	1,780
Service Fees	85
Total Expenditures	<u>\$1,865</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$10,150</u>
<u>DARE FOR DURAND AREA SCHOOLS</u>	
<u>BALANCE - JULY 1, 2003</u>	\$14,243
<u>REVENUE</u>	
Interest	88
Donations	853
Total Revenue	<u>\$941</u>
<u>EXPENDITURES</u>	
Service Fees	<u>86</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$15,098</u>
<u>NEAL SISTERS</u>	
<u>BALANCE - JULY 1, 2003</u>	\$4,121
<u>REVENUE</u>	
Interest	28
Donations	10,000
Total Revenue	<u>\$10,028</u>
<u>EXPENDITURES</u>	
Scholarship Awards	<u>1,981</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$12,168</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
PRIVATE PURPOSE TRUSTS
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED JUNE 30, 2004

<u>SEDLOCK</u>	
<u>BALANCE - JULY 1, 2003</u>	\$1,748
<u>REVENUE</u>	
Interest	15
Fund Transfer	962
Total Revenue	<u>\$977</u>
<u>EXPENDITURES</u>	
Services Fees	<u>85</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$2,640</u>
<u>JOHN A RICHARD MEMORIAL FUND</u>	
<u>BALANCE - JULY 1, 2003</u>	\$11,286
<u>REVENUE</u>	
Interest	259
Donations	875
Total Revenue	<u>\$1,134</u>
<u>EXPENDITURES</u>	
Service Fees	<u>85</u>
<u>BALANCE - JUNE 30, 2004</u>	<u>\$12,335</u>
<u>ALL SCHOLARSHIP FUNDS</u>	
<u>BALANCE - JUNE 30, 2004</u>	<u>\$154,696</u>

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

1996 ENERGY CONSERVATION IMPROVEMENT BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2004-2005	\$150,000	6.10%	\$9,535	\$9,535	\$169,070
2005-2006	160,000	6.20%	4,960	4,960	169,920
<u>TOTAL</u>	<u>\$310,000</u>		<u>\$14,495</u>	<u>\$14,495</u>	<u>\$338,990</u>

These funds were utilized for capital improvements.

1997 BUILDING & SITE BONDS

<u>DUE DATE</u>	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST PAYMENTS DUE</u>		<u>TOTAL</u>
			<u>NOVEMBER 1</u>	<u>MAY 1</u>	
2004-2005	\$385,000	5.250%	\$319,013	\$319,013	\$1,023,026
2005-2006	405,000	5.250%	308,907	308,907	1,022,814
2006-2007	430,000	5.250%	298,276	298,276	1,026,552
2007-2008	455,000	5.250%	286,988	286,988	1,028,976
2008-2009	480,000	5.250%	275,044	275,044	1,030,088
2009-2010	510,000	5.300%	262,444	262,444	1,034,888
2010-2011	540,000	5.350%	248,929	248,929	1,037,858
2011-2012	570,000	5.375%	234,484	234,484	1,038,968
2012-2013	600,000	5.375%	219,166	219,166	1,038,332
2013-2014	630,000	5.375%	203,041	203,041	1,036,082
2014-2015	660,000	5.375%	186,109	186,109	1,032,218
2015-2016	690,000	5.375%	168,372	168,372	1,026,744
2016-2017	725,000	5.375%	149,828	149,828	1,024,656
2017-2018	750,000	5.375%	130,344	130,344	1,010,688
2018-2019	775,000	5.375%	110,188	110,188	995,376
2019-2020	800,000	5.375%	89,359	89,359	978,718
2020-2021	825,000	5.375%	67,859	67,859	960,718
2021-2022	850,000	5.375%	45,688	45,688	941,376
2022-2023	850,000	5.375%	22,844	22,844	895,688
<u>TOTAL</u>	<u>\$11,930,000</u>		<u>\$3,626,883</u>	<u>\$3,626,883</u>	<u>\$19,183,766</u>

Used for construction of new middle school.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF BOND PRINCIPAL AND INTEREST REQUIREMENTS
AS OF JUNE 30, 2004

DATE OF ISSUE - November 24, 1998

Original amount of issue - \$270,227

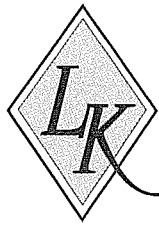
1998 DURANT RESOLUTION PACKAGE BONDS

	<u>PRINCIPAL REQUIREMENT</u>	<u>INTEREST RATE</u>	<u>INTEREST REQUIREMENT</u>	<u>TOTAL FISCAL YEAR REQUIREMENTS</u>
<u>PAYMENT DATE - MAY 15TH</u>				
2005	\$0	4.761353%	\$0	\$0
2006	13,080	4.761353%	5,896	18,976
2007	13,700	4.761353%	5,273	18,973
2008	14,355	4.761353%	4,621	18,976
2009	63,843	4.761353%	25,706	89,549
2010	15,754	4.761353%	3,222	18,976
2011	16,505	4.761353%	2,471	18,976
2012	17,289	4.761353%	1,686	18,975
2013	18,113	4.761353%	862	18,975
	<u>\$172,639</u>		<u>\$49,737</u>	<u>\$222,376</u>
<u>TOTAL</u>				

DURAND AREA SCHOOLS
DURAND, MICHIGAN
FEDERAL AWARDS
SUPPLEMENTAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2004

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Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 10, 2004

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Education of
Durand Area Schools

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Durand Area Schools, as of and for the year ended June 30, 2004, which collectively comprise the Durand Area Schools' basic financial statements and have issued our report thereon dated August 10, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

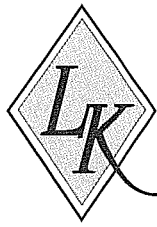
As part of obtaining reasonable assurance about whether Durand Area Schools' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to management of Durand Area Schools, in a separate letter dated August 10, 2004.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Durand Area Schools' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Durand Area Schools, in a separate letter dated August 10, 2004.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

LEWIS & KNOPF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 10, 2004

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE
WITH OMB CIRCULAR A-133**

To the Board of Education of
Durand Area Schools

Compliance

We have audited the compliance of Durand Area Schools with the types of compliance requirements described in *the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2004. Durand Area Schools' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Durand Area Schools' management. Our responsibility is to express an opinion on Durand Area Schools' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Durand Area Schools' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Durand Area Schools' compliance with those requirements.

In our opinion, Durand Area Schools complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2004-1.

Internal Control Over Compliance

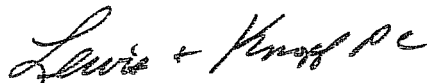
The management of Durand Area Schools is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Durand Area Schools' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.



Durand Area Schools
Page 2
August 10, 2004

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Education, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



LEWIS & KNOFF, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through Michigan Department of Education:			
Title I Grants to Local Education Agencies	84.010		
ESEA I - Regular (02-03)		31530-0203	\$481,126
ESEA I - Regular (03-04)		41530-0304	420,726
Total Title I			<u>\$901,852</u>
 Innovative Education Program Strategies	 84.298		
Title V (03-04)		30250-0304	6,279
 Technology Literacy Challenge	 84.318		
Title IID (02-03)		34290-0203	13,882
Title IID (03-04)		44290-0304	10,190
Total Technology Literacy Challenge			<u>\$24,072</u>
 Improving Teacher Quality	 84.367		
Title IIA (02-03)		30520-0203	133,327
Title IIA (03-04)		40520-0304	125,686
Total Improving Teacher Quality			<u>\$259,013</u>
Total Passed Through Michigan Department of Education			<u>\$1,191,216</u>
 Passed Through Genesee Intermediate School District:			
Safe & Drug Free Schools & Communities - State Grants	84.186		
Safe & Drug Free Schools (03-04)		42860-0304	2,791
 PEP - C.M. White Physical Fitness (03-04)	 84.215F	 Q215F031137	 4,000
Total Passed Through Genesee ISD			<u>\$6,791</u>
 <u>TOTAL U.S. DEPARTMENT OF EDUCATION</u>			 <u>\$1,198,007</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through Michigan Department of Education:			
Food Distribution	10.550		
Entitlement Commodities		N/A	26,634
Bonus Commodities		N/A	3,447
Total Commodities			<u>\$30,081</u>
 School Breakfast Program	 10.553	 N/A	 36,351
 National School Lunch Program	 10.555	 N/A	 173,099
 <u>TOTAL U.S. DEPARTMENT OF AGRICULTURE</u>			 <u>\$239,531</u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$66,293	\$443,441	\$37,685	\$0	\$103,978	\$0
0	0	383,550	0	391,460	(7,910)
\$66,293	\$443,441	\$421,235	\$0	\$495,438	(7,910)
0	0	6,279	0	6,279	0
11,487	11,487	2,395	0	13,882	0
0	0	1,893	0	1,893	0
\$11,487	\$11,487	\$4,288	\$0	\$15,775	\$0
(16,687)	82,503	50,824	0	34,137	0
0	0	81,127	0	79,281	1,846
(\$16,687)	\$82,503	\$131,951	\$0	\$113,418	\$1,846
\$61,093	\$537,431	\$563,753	\$0	\$630,910	(\$6,064)
0	0	2,791	0	2,791	0
0	0	4,000	0	0	4,000
\$0	\$0	\$6,791	\$0	\$2,791	\$4,000
\$61,093	\$537,431	\$570,544	\$0	\$633,701	(\$2,064)
0	0	25,057	0	25,057	0
0	0	3,447	0	3,447	0
\$0	\$0	\$28,504	\$0	\$28,504	\$0
0	0	36,351	0	36,351	0
0	0	173,099	0	173,099	0
\$0	\$0	\$237,954	\$0	\$237,954	\$0

DURAND AREA SCHOOLS - DURAND, MICHIGAN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/ PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH PROJECT NUMBER	PROGRAM OR AWARD AMOUNT
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Passed Through Capital Area Community Services			
Head Start	93.600	N/A	<u>\$7,211</u>
<u>TOTAL FEDERAL AWARDS</u>			<u><u>\$1,444,749</u></u>

ACCRUED (DEFERRED) REVENUE JULY 1, 2003	PRIOR YEAR EXPENDITURES	CURRENT YEAR EXPENDITURES	ADJUSTMENTS PRIOR YEARS	CURRENT YEAR CASH/ PAYMENTS IN KIND RECEIVED	ACCRUED (DEFERRED) REVENUE JUNE 30, 2004
\$0	\$0	\$7,211	\$0	\$7,211	\$0
\$61,093	\$537,431	\$815,709	\$0	\$878,866	(\$2,064)

DURAND AREA SCHOOLS - DURAND, MICHIGAN
NOTES/RECONCILIATION TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL REVENUE RECOGNIZED FOR SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS

\$815,709

FEDERAL REVENUE RECOGNIZED PER THE GENERAL
PURPOSE FINANCIAL STATEMENTS PURPOSE

General Fund \$570,544

School Service Fund 245,165

TOTAL \$815,709

- 1) The Schedule of Expenditures of Federal Awards had been prepared under the modified accrual basis of accounting.
- 2) Management has utilized the Grants Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards. All differences between the Schedule of Expenditures of Federal Awards and the Form R7120 have been reconciled in the attached reconciliation on page 7 of this report.
- 3) As of the date of completion of fieldwork, the Schedule of Transfers to Sub-Recipients from the Intermediate School Districts was not available. The amounts shown on the Schedule of Federal Financial Assistance as flow through from the Intermediate School Districts may not be conclusive.

DURAND AREA SCHOOLS - DURAND, MICHIGAN
RECONCILIATION OF FORM R 7120 "GRANT SECTION AUDITOR'S REPORT"
TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Current Payments Per the Grant Section Auditor's Report (Form R 7120)	\$855,928
<u>Less:</u> State Funded Grants Driver Education	(15,568)
<u>Add:</u> Grants Passed Through Shiawassee Intermediate School District: Safe and Drug-Free Schools (CFDA 84.186)	2,791
Entitlement and Bonus Commodities	28,504
Head Start (CFDA 93.600)	<u>7,211</u>
<u>TOTAL CURRENT YEAR RECEIPTS PER SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS</u>	<u><u>\$878,866</u></u>

DURAND AREA SCHOOLS- DURAND, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☒ Yes ☐ None reported

Type of auditor’s report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

☒ Yes ☐ No

Identification of major programs:

CFDA Number(s)
84.010

Name of Federal Program or Cluster
Title I Grants to Local Educational Agencies

Dollar threshold use to distinguish between type A and type B programs:

\$ 300,000.00

Qualified as low-risk auditee?

☒ Yes ☐ No

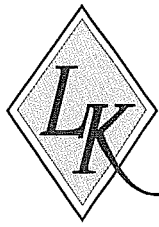
DURAND AREA SCHOOLS- DURAND, MICHIGAN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

2004-1) Title I (CFDA #84.010)

<u>Specific Requirement:</u>	Allowable Cost/Cost Principles.
<u>Condition:</u>	The District did not complete the time certifications required for employees working solely on a single Federal award or cost objective.
<u>Criteria:</u>	The cost principles of OMB Circular A-87 require, "Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee".
<u>Effect of Condition:</u>	Salaries and wages charged to the program could be disallowed.
<u>Cause of Condition:</u>	The cause of the condition was the lack of knowledge of the requirement of the Circular in regards to the need for time certification.
<u>Recommendation:</u>	The District should develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Management Response:</u>	The District will develop a standard time certification form and have the appropriate employee or other supervisory employee complete the certifications every six months.
<u>Questioned Cost:</u>	None.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There were no prior year findings.



Lewis & Knopf, CPAs, P.C.

"Serving You with Trust and Integrity"

August 10, 2004

To the Board of Education of
Durand Area Schools

In planning and performing our audit of the general purpose financial statements of Durand Area Schools for the year ended June 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Durand Area Schools' ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements.

The following items of immaterial internal control or administrative consideration came to our attention.

CURRENT YEAR FINDINGS

1. Budgets and Budgetary Accounting

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. During the year ended June 30, 2004, Durand Area Schools incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated.

2. Student Activity Accounting

- A) A pre-numbered receipt book with duplicate copies should be used to receipt funds.
- B) Management should review the accounting records for completeness and accuracy on a monthly basis to verify timely completion.
- C) At June 30, 2004, several of the Activity Accounts had deficit balances. Activity accounts are only permitted to expend the fund they have taken in. They are not allowed to borrow from other activities thus creating a deficit balance.
- D) The person who performs the accounting work for student accounts should not be an authorized signer on the account.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.



Durand Area Schools

Page 2

August 10, 2004

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, none of the reportable conditions described above is believed to be a material weakness.

This report is intended for the information of Durand Area Schools' Board of Education and management and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lewis & Knopf P.C.

LEWIS & KNOFF, P.C.

CERTIFIED PUBLIC ACCOUNTANTS